P-519, 403/CP-89-703 ORDER REQUIRING REVISED COST STUDIES AND PROPOSED RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner
Patrice M. Vick	Commissioner

In the Matter of a Petition for Extended Area Service From the Easton Exchange to the Wells Exchange

ISSUE DATE: June 11, 1991

DOCKET NO. P-519, 403/CP-89-703

ORDER REQUIRING REVISED COST STUDIES AND PROPOSED RATES

PROCEDURAL HISTORY

On August 23, 1989, customers within the Easton exchange filed a petition requesting extended area service (EAS) from the Easton exchange to the Wells exchange.

On December 15, 1989, following the submission of traffic studies, cost studies, and community of interest information by the Easton Telephone Company (Easton) serving the Easton exchange and the Blue Earth Telephone Company (Blue Earth) serving the Wells exchange, the Minnesota Department of Public Service (the Department) submitted a stipulation of facts.

On April 27, 1990, the Minnesota legislature enacted legislation regulating the installation of extended area service in Minnesota. The legislation specifies the circumstances under which the establishment of extended area telephone service is required. Minn. Stat. § 237.161 (1990).

On June 26, 1990, the Commission met to consider the implications of this legislation for petitions from three greater Minnesota area exchanges seeking EAS to areas other than to the metropolitan calling area, including the Easton EAS petition. [1]

[1] On June 26, 1990, in addition to the petition from the Easton exchange which is the subject of this Order, the Commission addressed EAS petitions from the Nickerson and Winnebago exchanges, Docket No. P-407, 421/CP-89-105 and Docket No. P-403/CP-89-930 respectively.

On July 5, 1990, the Commission issued its ORDER REQUIRING FILING OF COST STUDIES AND PROPOSED RATES.

On August 17, 1990, the accounting firm that represents Blue Earth and Easton filed cost studies and proposed rates.

On September 11, 1990, the accounting firm filed revised cost studies.

On October 26, 1990, the Department filed its recommendation regarding the cost studies and proposed rates.

On November 15, 1990, Blue Earth and U S West Communications, Inc. (USWC) submitted response comments regarding the Department's recommendation.

On May 14, 1991, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

Easton serves the petitioning exchange, Easton, and Blue Earth serves the petitioned exchange, Wells. USWC "provides" toll service to the two exchanges. However, the unusual manner in which USWC provides toll service must be understood in order to resolve several of the issues addressed in this Order. USWC does not physically carry the current toll traffic between Easton and Wells. The Easton switch is tied to the Wells switch in a host/remote network configuration so that Easton and Blue Earth carry the toll traffic between Easton and Wells. However, because Easton and Blue Earth, as local exchange companies (LECs) have no authority to provide toll service, they have made an arrangement with USWC whereby USWC pays Easton and Blue Earth for access and Easton and Blue Earth transfer the toll revenues they receive for the Easton-Wells route to USWC. In this manner, USWC provides toll service between the two exchanges.

Before setting the EAS rates that will be used in the polling process, the Commission must have thorough and accurate cost information from the serving telephone companies. In its report and recommendation regarding the sufficiency of the cost studies filed regarding the Easton EAS petition, the Department raises five issues regarding the sufficiency of those cost studies. The Commission's disposition of those issues follows:

1. Stimulation Factor

The cost studies submitted by Easton and Blue Earth do not contain explicit EAS usage stimulation factors nor do they include calculations that translate an EAS stimulation factor into new plant investment. The Department recommended that Easton and Blue Earth be required to submit these items.

The Commission finds that inclusion of an explicit EAS usage stimulation factor will enable the Commission to better determine the reasonableness of the rates proposed by Easton and Blue Earth. Therefore, the Commission will require the companies to state the stimulation factor that they use in formulating their proposed EAS rates.

2. Balloting Costs

The cost studies submitted by Easton and Blue Earth do not contain an estimate of non-recurring balloting costs. The Department recommended that Easton and Blue Earth be required to refile cost studies that include an estimate of non-recurring balloting costs.

Only Easton will incur balloting costs on behalf of its subscribers. Wells will incur no balloting expenses because its subscribers will not be polled. With the exception of the postage cost of returning EAS ballots, such balloting costs are recoverable pursuant to Minn. Stat. § 161, subd. 3 (b) (1990). The Commission, therefore, will require Easton, but not Wells, to submit a one-time, non-recurring charge to recover authorized balloting costs on a per subscriber line basis.

3. USWC Access Costs and Toll Revenues

The Department recommended that USWC be required to file a cost study that accounts for the estimated income that flows between it and the Easton and Blue Earth companies pursuant to the accounting arrangement described previously and that Easton and Blue Earth incorporate this information into their revised cost studies.

The Commission finds that USWC toll contribution must be incorporated into the EAS rates so that all companies will remain income neutral as required by Minn. Stat. § 237.161, subd. 3 (b) (1990). The Commission, therefore, will require the companies to revise their cost studies and proposed rates to reflect the access and toll contribution that flows between them.

4. "Additional" Toll Costs Incurred by USWC

The Department argues that USWC currently incurs some toll costs associated with processing the revenue and access charge information it receives from Easton and Blue Earth. According to the Department, since USWC will not incur these expenses if EAS is adopted between Easton and Blue Earth, these costs should be deducted when calculating the toll contribution that USWC will lose due to implementation of this EAS route.

The Commission finds USWC's toll costs do not appreciably decline due to implementing EAS between Easton and Wells. As indicated previously, USWC does not physically carry toll traffic between Easton and Wells. The cost that USWC incurs in conjunction with Easton and Wells toll traffic is simply the administrative expense of processing the revenue and access charge information it receives from Easton and Blue Earth. However, USWC receives toll call information in aggregate form for <u>all</u> toll routes served by Easton and Blue Earth. Elimination of the Easton/Wells toll route by creation of an Easton/Wells calling area, therefore, will remove Easton-Wells toll calls from this aggregation but will not eliminate the need to process the substantial aggregation that remains, i.e. the toll calls for the other toll routes served by Easton and Wells. In short, the costs associated with USWC's accounting activity will remain basically unchanged.

5. Cost Allocation

The Department recommended that the Commission adopt EAS rates for Easton and Wells under which Easton subscribers would pay 75% of the EAS costs and Wells subscribers would pay 25% of the costs. The Commission finds that a decision on the allocation of costs between the petitioning and petitioned exchanges is premature and will defer resolution of that issue until after revised cost studies and proposed rates are filed as required by this Order.

<u>ORDER</u>

1. Within 45 days of the date of this Order, Easton, Blue Earth and USWC shall submit revised cost studies that

    a. account for and provide documentation to establish USWC's lost toll contribution; and

    b. as discussed in the text of this Order, do not include additional USWC accounting costs that may be classified as toll costs.

2. In their revised cost studies filed pursuant to Ordering Paragraph 1, Easton and Blue Earth shall specify a stimulation factor regarding EAS usage.

3. Within 45 days of the date of this Order, Easton shall submit a one-time, non-recurring charge for EAS balloting costs on a per subscriber line basis which shall not include the costs of return postage.

4. Within 45 days of the date of this Order, Easton, Blue Earth and USWC shall submit revised rates that

    a. incorporate that stimulation factor into the proposed rates;

    b. incorporate lost toll contribution;

    c. as discussed in the text of this Order, do not reflect additional USWC accounting costs that may be classified as toll costs; and

    d. use the same levels of cost allocation between the exchanges as was used in their original proposals.

5. Within 45 days of the date that the items noted in the preceding Ordering Paragraphs are filed, the Department shall

    a. submit its report and recommendation regarding an appropriate stimulation factor, balloting cost, the revised cost studies, the proposed rates and cost allocation between exchanges; and

    b. serve its report and recommendation on USWC, Easton, Blue Earth and the petition sponsor.

6. Within 20 days of the date the Department files its report and recommendation, interested parties may file response comments.

7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)